

Revenue Estimates

As the economy slowed over the last year, the decline in the State's revenues was even more pronounced than what was expected at the time the 2001 May Revision was prepared. Since enactment of the 2001 Budget Act (Chapter 106, Statutes 2001), the General Fund revenue forecast for major taxes and licenses has decreased by \$5.4 billion for the past and current years combined. Revenue growth should resume in 2002-03 and be up \$6.3 billion, or 9.3 percent, from 2001-02, reaching \$74 billion. However, this is still \$1.6 billion below the 2000-01 level.

By 2002-03, tax relief from vehicle license fee reductions, phase-out of the estate tax, and measures enacted under this Administration will reach \$5.1 billion. For the period 1999-00 through 2002-03, these measures will have provided \$14.4 billion in taxpayer benefits. The budget challenge presented this year has been met without scaling back any of these significant savings to taxpayers.

Just as the State's remarkable revenue growth in recent years was driven by stock-market related gains, the current

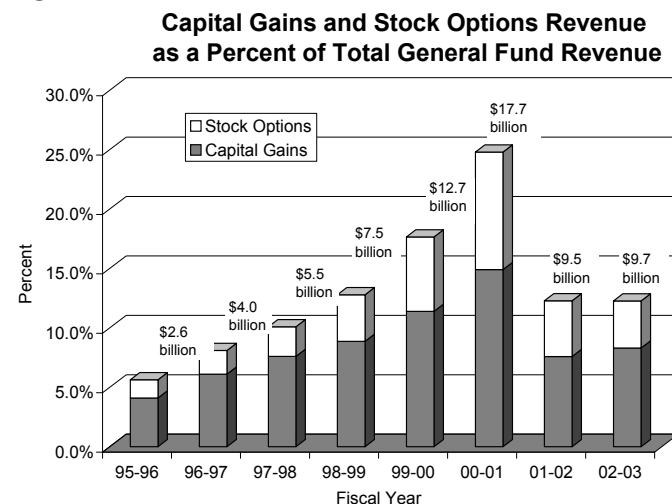
fall-off largely reflects the market's decline. Figure REV-1 shows the portion of General Fund revenues from market-related income.

As can be seen in Figures REV-2, REV-3, and REV-4, revenues began to weaken beginning early in 2001. Year-over-year losses in personal income tax withholding are believed to be attributable primarily to the loss of stock option income, which plunged with the slowing economy and the market's retreat. Taxpayers are also anticipating less non-wage income—primarily capital

gains—which has eroded estimated payment receipts. Similarly, consumers have cut back, resulting in a deterioration in purchases of taxable goods. This softness in revenues is expected to be short-lived, and growth is expected to resume by mid-2002.

The Budget and the forecast also reflect the following three proposals:

Figure REV-1



Note: An assumed tax rate of 9 percent was used to calculate the tax revenue from capital gains and stock options.

Revenue Estimates



Figure REV-2

**Personal Income Tax Withholding
Monthly Year-Over-Year Change**

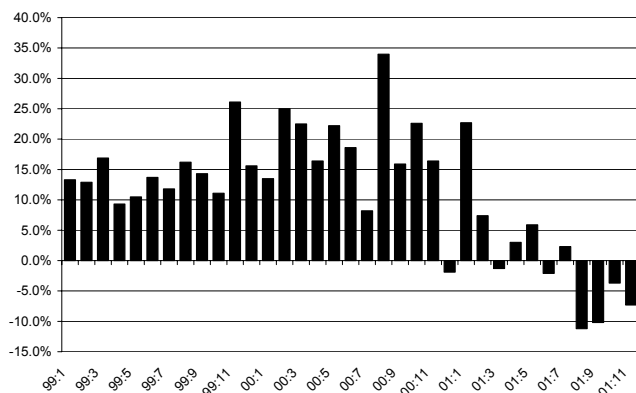


Figure REV-3

**Personal Income Tax Estimated Payments
Quarterly Year-Over-Year Percent Change**

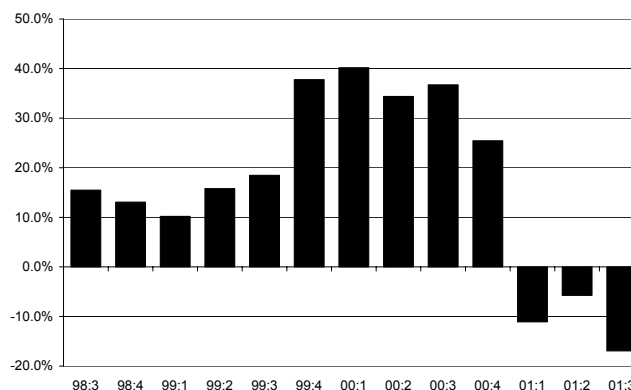
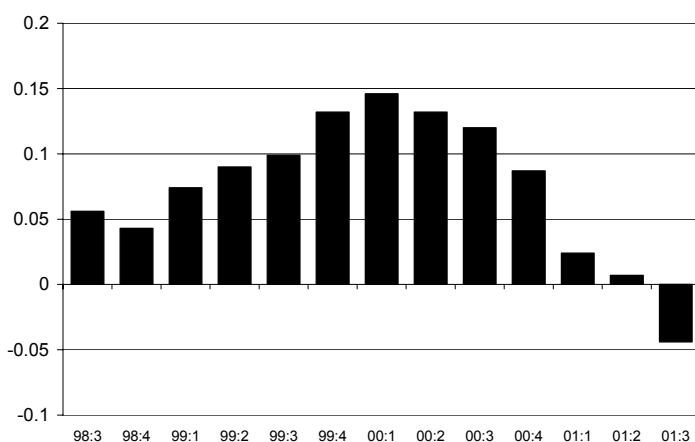


Figure REV-4

**Taxable Sales
Quarterly Year-Over-Year Percent Change**



- ◆ **Moving the State's tax law into closer conformity with federal law**—This proposal would adopt a number of critical pension and individual retirement account changes made in the federal Economic Growth and Tax Relief Reconciliation Act of 2001, as well as provisions dealing with the treatment of

qualified tuition plans and increases in the dependent care credit. Other changes will conform California's rules for estimated payments to federal rules, and provide that any federal election for corporations applies for State tax purposes. This proposal would increase revenues by \$178 million in 2002-03 and reduce revenues by \$59 million in 2003-04 and \$75 million in 2004-05.

- ◆ **Clarifying the State sales tax exemption for diesel fuel used in farming and food processing**—To assist farmers, Chapter 156, Statutes of 2001, provided a sales tax exemption for diesel fuel, which included the transportation of farm products to the marketplace. As indicated in the signing message for Chapter 156, technical corrections are needed to clarify that this exemption is intended to apply only to delivery to the first destination from the farm.

Figure REV-5**General Fund Revenue**
(Dollars in Millions)

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
Personal income tax	\$44,614	\$38,455	\$42,605
Sales and use tax	21,277	21,165	22,850
Bank and corporation tax	6,899	5,261	5,869
All other	-1,362	12,202	7,981
Total revenues and transfers	\$71,428	\$77,083	\$79,305
Annual percent change	-0.7%	7.9%	2.9%

- ◆ **Reducing the interest rate paid on corporate and estate tax overpayments**—Currently, the interest rate the State pays on corporate and estate tax overpayments is significantly higher than market rates. This proposal would reduce the rate to the lesser of the three-month treasury bill rate or 5 percent, which is similar to what is done for sales tax overpayments. This change will save the State \$25.4 million in interest expense.

Figure REV-5 provides a summary of the revenue forecast for 2001-02 and 2002-03, as well as a preliminary report of actual receipts for 2000-01.

Impact of 2001 Tax Reduction

Last year, several targeted tax relief measures were enacted including sales tax exemptions for liquid petroleum gas, diesel fuel used in agriculture, farm and forestry equipment, and race horse breeding stock; a tax credit for solar energy systems; extension of the employer child care credit; and senior

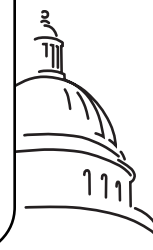
citizens homeowners and renters relief. This package of bills will provide taxpayers with approximately \$135 million in tax savings in 2001-02 and \$146 million in 2002-03. Figure REV-6 provides additional detail on these measures.

Revenues in Total

Overall, General Fund revenues and transfers represent almost 84 percent of total revenues. The remaining 16 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales, and corporation taxes) account for about 75 percent of total revenues.

PERSONAL INCOME TAX: \$42.605 BILLION

The personal income tax, the State's largest revenue source, is expected to contribute 54 percent of all General Fund revenues in 2002-03. Personal income tax revenues are forecast to decline by 13.8 percent for 2001-02 and then increase by 10.8 percent for 2002-03. The estimate incorporates



the effect of legislation enacted subsequent to the Budget Act of 2001 (Chapter 106, Statutes 2001), as well as the impact of proposed audit and collection activity and the Administration's conformity initiative.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income—that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1.0 percent to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax. One dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic impact on State revenues.

In tax year 1999, for example, the top 9.6 percent of State taxpayers—those with adjusted gross incomes of over \$100,000—reported 48.6 percent of the total income and paid 75.1 percent of the personal income tax. In contrast, lower income taxpayers—those with adjusted gross incomes of less than \$20,000—reported 6.1 percent of the

Figure REV-6

**2001-02 Tax Relief Measures
Summary of Fiscal Impact
(Dollars in Millions)**

Chapter/Bill Number	Description	Fiscal Impact		
		2001-02	2002-03	2003-04
Chapter 156/AB 427	Sales tax exemption for liquefied petroleum gas	-\$6.9	-\$8.3	-\$8.3
Chapter 156/AB 428	State sales tax exemption for farm and forestry equipment	-20.1	-24.5	-24.5
Chapter 156/AB 429	State sales tax exemption for diesel fuel used in agriculture	-11.4	-1.1	-1.1
Chapter 156/AB 430	State sales tax exemption for race horse breeding stock	-1.3	-1.6	-1.6
Chapter 12/X2 SB 17	Solar energy systems tax credit	-20.0	-35.0	-45.0
Chapters 156 & 197/AB 440 & 426	Senior citizens homeowners and renters relief	-75.0	-75.0	-75.0
Chapter 650/AB 866	Extension of employer child care credit	=	-0.5	-5.0
	2001-02 Total	-\$134.7	-\$146.0	-\$160.5

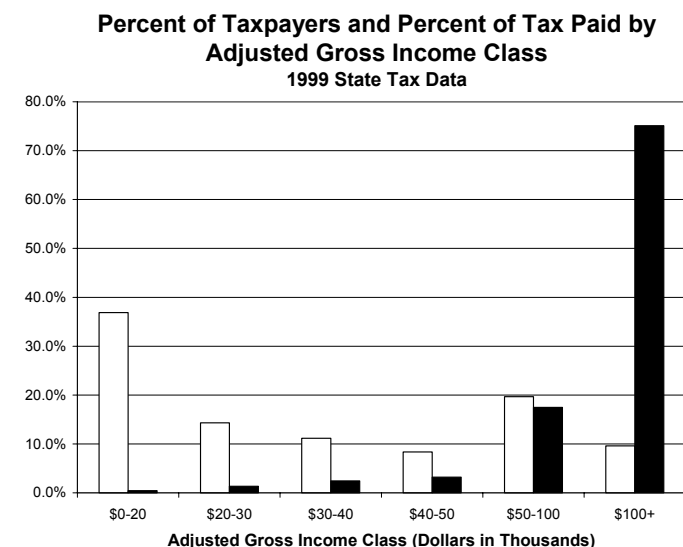


total income and paid only 0.5 percent of the personal income tax in 1999, yet represented 36.9 percent of all California taxpayers. Data for 2000 will be available in the spring. The progressivity of California's tax system is demonstrated in Figure REV-7, which displays the percent of total returns and tax paid by adjusted gross income class.

The volatility of the stock market and thus capital gains also complicates personal income tax revenue forecasting. Not only are stock and real estate market gains inherently difficult to predict, but holders of capital assets are usually very high-income taxpayers who are subject to the maximum tax rate and can time the realization of gains and the payment of tax to their advantage. Gains from stocks and securities comprise the majority of capital gains realizations, and taxes from this component of income had an increasing influence on personal income tax revenues in the latter half of the 1990s when year after year, the stock market reached record breaking levels.

Preliminary data indicate that capital gains realized in 2000 were again strong, increasing 30 percent from 1999, and to roughly seven times the level of 1994. Although the stock market peaked in the spring of 2000, it is likely that the phenomenal growth over the past several years had pushed prices sufficiently high for many investors to still reap significant gains in 2000. Given that the market continued to slide during 2001, however, this forecast assumes a 45 percent decline in capital gains from the level achieved

Figure REV-7



in 2000. The weakness seen in estimated payments for the 2001 tax year supports a decline of this magnitude. Accrued estimated payments for the first three quarters of 2001 were 11.5 percent below the first three quarters of 2000. In contrast, the first three quarters of 2000 were 36.8 percent above the same period in 1999.

Capital gains in 2002 are assumed to increase by 12.5 percent, which is the long-run average growth rate prior to the stock market rise that began in 1995. This is also consistent with the economic forecast for a moderate market rebound in 2002. The level of capital gains from 1972 through the forecast period is shown in Figure REV-8.

Stock options, which are also related to stock market performance, also add volatility to personal income tax

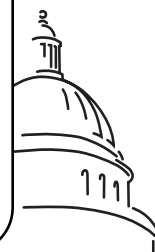
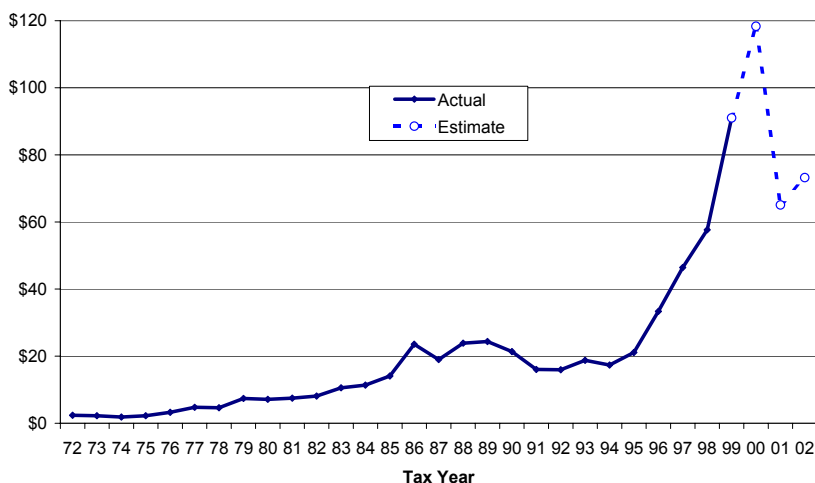


Figure REV-8

Capital Gains Taxable Income
(Dollars in Billions)



revenues. During the market's high growth years, stock options became an increasingly common component of wage packages, especially with Internet-related businesses, and the growth in this component was reflected in the strength of withholding receipts. Receipts for January through November 2000 were 19.3 percent over the comparable 1999 level. For 2001, withholding for the same period is up only 0.8 percent, and receipts for the August through November period posted monthly year-over-year declines. The stock option component of this forecast is estimated to decline by roughly 50 percent in 2001, with a more moderate decline of 13 percent in 2002.

Combined, stock options and capital gains are forecast to decline by approximately 47 percent in 2001 and increase by slightly less than 3 percent in 2002. Aside from the assumptions regarding

stock market performance, the other key factor underlying this forecast is the expectation that the general economy will begin to rebound in 2002.

Revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are as follows:

Personal Income Tax Revenue
(Dollars in Millions)

2000-01 (Preliminary)	44,614
2001-02 (Forecast)	38,455
2002-03 (Forecast)	42,605

SALES TAX: \$22.850 BILLION

Sales and use taxes—the State's second-largest revenue source—are expected to contribute 29 percent of all General Fund revenues in 2002-03. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs, and electricity, making the tax more progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the State and local levels is presented in Figure REV-9. Combined State and local tax rates currently imposed in each county are summarized in Figure REV-10.



Taxable sales in 2000 grew 11.9 percent over 1999, following year-over-year increases of 5.2 percent and 10.0 percent in 1998 and 1999, respectively. Preliminary data received for the first three quarters of 2001 suggest that taxable sales have slowed significantly: sales for 2001 are expected to be down by 2.0 percent compared to 2000.

Taxable sales are expected to resume growing during 2002, but at a slow pace—up only 0.8 percent—due to a continued sluggish economy during the

first half of the year. In 2003, the rate of increase is expected to accelerate sharply to 7.5 percent, consistent with economic growth. The 2002 forecast predicts continued declines in transportation and fuel sales, with modest growth in manufacturing, services, and other retail components. In 2003, broadly based gains are expected in taxable sales across many sectors of the economy. However, the largest percentage increases are expected in the building and transportation components.

Figure REV-9

State and Local Sales and Use Tax Rates

State Rates

General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75% and during 2002, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and welfare programs transferred to counties as part of state-local realignment.

Local Uniform Rates¹

Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use. ²
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.

Local Add-on Rates³

Transactions and Use Taxes	up to 1.50%	May be levied in 0.25% increments up to a combined maximum of 1.5% in any county. ⁴ Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors plus two-thirds of the voters.
----------------------------	-------------	---

¹ These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

² The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

³ These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

⁴ The three exceptions to the 1.5 percent maximum are San Mateo County and San Francisco City and County, which may exceed the limit by 0.5 percent and 0.25 percent, respectively, and San Diego County, which is subject to a 1 percent maximum. Fresno, Nevada, Solano, and Stanislaus may levy transactions and use taxes in increments of 0.125 percent. To date, 33 counties and countywide special districts levy transactions and use taxes. Seven cities also impose transactions and use taxes on less than a countywide basis.

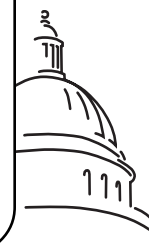


Figure REV-10

**Combined State and Local Sales and Use Tax
Rates by County**
(Rates in Effect on January 1, 2002)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.25%	Madera	7.75%	San Joaquin	7.75%
Alpine	7.25%	Marin	7.25%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced	7.25%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz	8.00%
Contra Costa	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey	7.25%	Sierra	7.25%
El Dorado ^{1/}	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno ^{2/}	7.875%	Nevada ^{6/}	7.375%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma	7.50%
Humboldt	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial ^{3/}	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito	7.25%	Tulare	7.25%
Lake ^{4/}	7.25%	San Bernardino	7.75%	Tuolumne	7.25%
Lassen	7.25%	San Diego	7.75%	Ventura	7.25%
Los Angeles ^{5/}	8.25%	San Francisco	8.50%	Yolo ^{7/}	7.25%
				Yuba	7.25%

^{1/} 7.50% for sales in the City of Placerville (City of Placerville Public Safety Transactions and Use Tax).

^{2/} 8.175% for sales in the City of Clovis (City of Clovis Public Safety Transactions and Use Tax)

^{3/} 8.25% for sales in the City of Calexico (Calexico Heffernan Memorial Hospital District).

^{4/} 7.75% for sales in the City of Clearlake (City of Clearlake Public Safety Transactions and Use Tax).

^{5/} 8.75% for sales in the City of Avalon (Avalon Municipal Hospital and Clinic Transactions and Use Tax)

^{6/} 7.875% for sales in the Town of Truckee (Town of Truckee Road Maintenance Transactions and Use Tax)

^{7/} 7.75% for sales in the City of Woodland (City of Woodland General Revenue Transactions and Use Tax)

The sales and use tax revenue forecast is prepared by relating taxable sales by type of goods purchased to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

Effective January 1, 2002, the State sales tax rate returned to 5 percent after having fallen to 4.75 percent during the 2001 calendar year. This rate change was a result of a provision enacted in the early 1990s (Chapter 119, Statutes of 1991) that triggered a quarter-cent reduction in the tax rate if the State surplus exceeded 4 percent of General Fund revenues and transfers, during a two fiscal-year period.

This trigger formula was amended as part of the 2001 Budget agreement (Chapter 156, Statutes of 2001) to require that the surplus exceed revenues by only 3 percent for a single year in order to activate the sales tax rate reduction. Consistent with what was assumed when the Budget agreement was reached, the surplus level was not sufficient to trigger an additional year of reduction for 2002.

In addition to changing the sales tax trigger formula, Chapter 156, Statutes of 2001, added new rural-based tax exemptions. It added liquefied petroleum gas not delivered through mains, lines, or pipes to the existing liquefied petroleum gas exemption for both the State and local sales taxes. Also,

Figure REV-11

Taxable Sales Growth in California

	2000 Actual	2001 Forecast	2002 Forecast	2003 Forecast
Transportation	14.4%	-4.0%	-2.2%	11.3%
Fuel	24.3%	-0.2%	-7.2%	3.7%
Building Materials	11.7%	-3.0%	0.9%	8.2%
Manufacturing and Services	12.2%	-2.9%	2.4%	7.5%
All other Retail Sales	9.2%	-0.8%	2.6%	6.3%
Total Taxable Sales	11.9%	-2.0%	0.8%	7.5%



A summary of the forecast for taxable sales growth is presented in Figure REV-11. Details for 2000 sales by major component are presented in Figure REV-12.

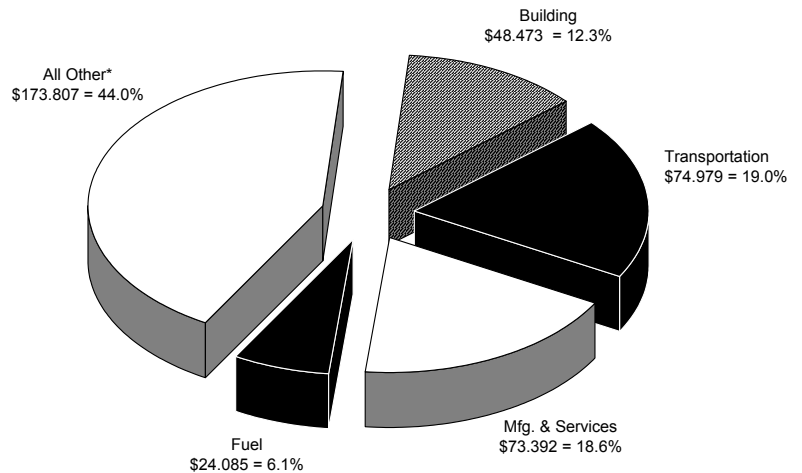
Chapter 156 exempted racehorse breeding stock, farm and forestry equipment and machinery, and diesel fuel used for agricultural and food-processing purposes at the State level only.

Current law specifies that certain State revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account. The combined transfer to this account is estimated to be \$237 million in 2001-02 and \$231 million in 2002-03. This money is excluded from General Fund totals.

Chapter 91, Statutes of 2000, created the Traffic Congestion Relief Fund. During 2000-01, \$500 million was transferred from the Retail Sales Tax Fund to this new fund from the sales tax on gasoline. Chapter 91 also required that for each quarter during the period commencing on July 1, 2001, and ending on June 30, 2006, the General Fund sales tax revenue from gasoline be transferred to the Transportation Investment Fund, with a portion of this transferred to the Traffic Congestion Relief Fund. Chapter 113, Statutes of 2001, delayed the implementation of this provision until July 1, 2003, but also added two years to the end of the Traffic Congestion Relief Program by extending the transfer of the sales tax on gasoline for two years. Pursuant to Chapter 113, transfers to the Transportation Investment Fund will not be made during 2001-02 and 2002-03.

Figure REV-12

2000 Taxable Sales by Major Components
(Dollars in Billions)



* Includes apparel, general merchandise, specialty goods, eating & drinking establishments, and agricultural goods.

Revenues from State-imposed sales tax rates are shown in Figure REV-13. The table below shows the General Fund sales tax revenue forecast for 2001-02 and 2002-03, compared with preliminary 2000-01 collections:

Sales and Use Tax Revenue
(Dollars in Millions)

2000-01 (Preliminary)	21,277
2001-02 (Forecast)	21,165
2002-03 (Forecast)	22,850

CORPORATION TAX: \$5.869 BILLION

Corporation tax revenues are expected to contribute 7.4 percent of all General Fund revenues in 2002-03. These revenues are derived from five taxes:

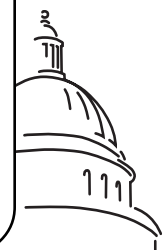


Figure REV-13

Sales Tax Revenue

(Dollars in Thousands)

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
General Fund	\$21,276,843	\$21,165,000	\$22,850,000
Sales and Use Tax--Realignment	2,287,600	2,197,900	2,299,800
Public Transportation Account	233,850	237,306	230,715
Traffic Congestion Relief Fund*	500,000	0	0
Total	\$24,298,293	\$23,600,206	\$25,380,515

* After 2000-01, no money is transferred directly from the Retail Sales Tax Fund to the Traffic Congestion Relief Fund.

- ❖ The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers. Corporations that have a limited number of shareholders and meet other requirements to qualify for State Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships—i.e., the S-corporation's profits and losses flow through to its shareholders and are subject to tax at the appropriate personal income tax rate.)



- ❖ Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- ❖ The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that very profitable corporations do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- ❖ A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. Starting in 2000, new corporations were exempted from the prepayment of minimum tax to the Secretary of State as well as the payment of the second year's minimum franchise tax.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

In recent years, S-corporation activity and use of credits (largely the research and development credit and the manufacturers' investment credit) were the primary factors contributing to a

divergence between profit and liability growth. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax.

S-corporations accounted for 28.8 percent of total taxable profits in 1999, whereas in 1991, their share was only 14.7 percent. This diverging trend between profits and liabilities can be seen in Figure REV-14.

Consistent with the economic outlook, corporation tax revenues are expected to decrease by 23.7 percent in 2001-02 before increasing by 11.6 percent in 2002-03. The estimate includes the fiscal impact of legislation enacted in 2001, including a tax credit for solar energy systems (Chapter 12, Statutes of 2001) and extension of the employer child care tax credit (Chapter 650, Statutes of 2001), as well as the impact of proposed audit and collection activity, the Administration's conformity initiative, and a proposal to reduce the interest rate on tax overpayments.

Revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are as follows:

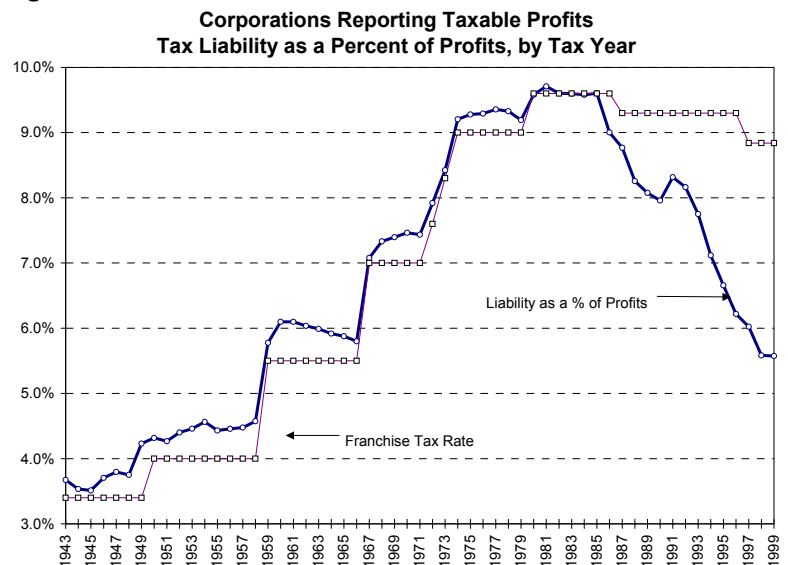
**Corporation Tax Revenue
(Dollars in Millions)**

2000-01 (Preliminary)	\$6,899
2001-02 (Forecast)	5,261
2002-03 (Forecast)	5,869

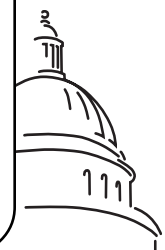
INSURANCE TAX: \$1.656 BILLION

The majority of insurance written in California is subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other State and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

Figure REV-14



There are some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain



pension and profit-sharing plans, including qualified annuities, which are taxed at a lower rate of 0.5 percent; and certain specialized lines of insurance that are taxed at 3 percent.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses are obtained from about 300 insurance companies, which account for over one-half of the insurance written in California.

Figure REV-15 illustrates the proportion of premiums written by insurance type from which the revenue is derived. For 2000, \$64.6 billion in taxable premiums written were reported, an increase of 12.1 percent over 1999. The most recent survey indicates that premiums written will increase by 8.8 percent in 2001 and by 8.1 percent in 2002. Due to factors such as tax deferrals, averaging, and various applied tax rates, revenues grow at different rates than premiums written. On a calendar year

basis, revenues are expected to grow by 7.7 percent in 2001 and by 7.9 percent in 2002 based on survey responses.

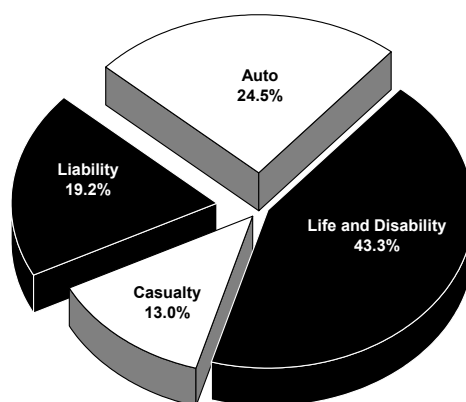
These increases are being driven by growth in the commercial property and workers compensation lines, in particular, as well as life insurance. Increases in the cost of medical care and repairs pertaining to most commercial coverage have contributed to premium growth in the first two areas. The positive growth outlook for life insurers is attributable to marketing shifts away from traditional fixed value life insurance products and towards investment-type policies that allow for changing values.

Revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are as follows:

Insurance Tax Revenue (Dollars in Millions)

2000-01 (Preliminary)	\$1,497
2001-02 (Forecast)	1,560
2002-03 (Forecast)	1,656

Figure REV-15
Insurance Premiums by Category in 2000



ESTATE/INHERITANCE/ GIFT TAXES: \$614.5 MILLION

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead, an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal "taxable estate," with tax rates that range from 0.8 percent to



16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government.

However, the Economic Growth and Tax Relief Reconciliation Act of 2001, recently signed into law by the President, phases out the federal estate tax by 2010. As part of this, the Act reduces the state pick-up tax by 25 percent in 2002, 50 percent in 2003, and 75 percent in 2004, and eliminates it beginning in 2005. Reductions of the pick-up tax results in a loss of \$367 million in 2002-03, rising to \$1.27 billion in 2005-06. The provisions of this federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent.

The forecast includes \$3.2 million for a proposal to decrease the interest rate paid on overpayments. Revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are as follows:

**Estate, Inheritance,
and Gift Tax Revenue
(Dollars in Millions)**

2000-01 (Preliminary)	\$934.7
2001-02 (Forecast)	850.9
2002-03 (Forecast)	614.5

**ALCOHOLIC BEVERAGE
TAXES: \$282 MILLION**

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage. The tax rate per gallon for beer, dry wine, and sweet wine is \$0.20. The tax rates per gallon for sparkling wine and distilled spirits are \$0.30 and \$3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are shown in Figure REV-16.

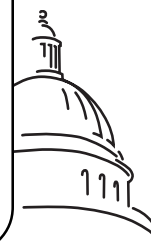
Figure REV-16

**Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)**

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
Beer and Wine	\$150.6	\$149.0	\$149.0
Distilled Spirits	137.8	136.0	133.0
Total	\$288.4	\$285.0	\$282.0

CIGARETTE TAX: \$122 MILLION

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new



excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of one dollar per pack.

The State excise tax on cigarettes of 87 cents per pack is allocated as follows:

- ❖ Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.
- ❖ Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- ❖ Ten cents of the per-pack tax is allocated to the State's General Fund.
- ❖ The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and State anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement have all significantly reduced cigarette consumption.

Per capita consumption declined on average 3 percent annually from 1983-84 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was about 123 packs versus 83 packs in 1997-98—a 32 percent decrease over eight years. Price increases stemming from tobacco litigation—in conjunction with the State's excise tax hike—further reduced per capita consumption by approximately 28 percent over the last three years to 61 packs in 2000-01. The long-term downward trend in taxable consumption should continue to reduce cigarette sales in the range of 3 percent annually.

Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. Historically, these taxes have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. The Board of Equalization has the authority to determine how this tax is calculated. Historically, it was based on a percentage of the wholesale cost



applied uniformly to all other tobacco products. However, the Board revised this formula at the beginning of 2001-02, which resulted in wholesale tax rates that ranged from 52.65 percent to 490 percent depending on the tobacco product. Following a series of court actions, an agreement was reached in late November that applied the lower rate uniformly to all other tobacco products. That rate is incorporated into this forecast.

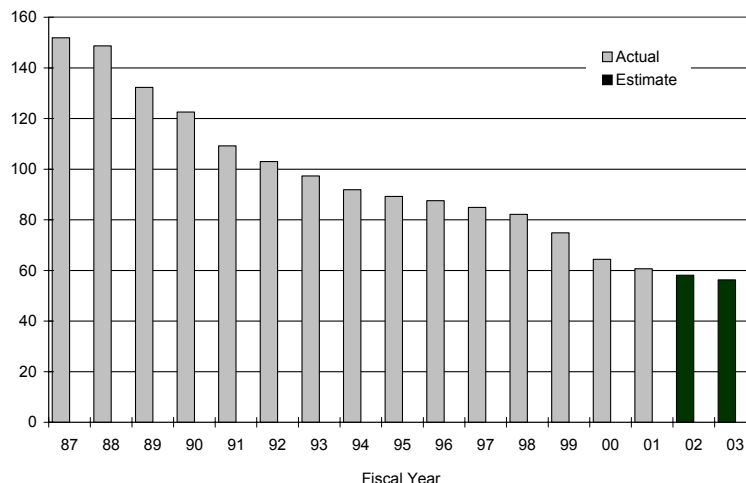
Per capita consumption of cigarette packs from 1986-87 through 2002-03 is illustrated in Figure REV-17. Total tobacco tax revenues forecasted for 2001-02 and 2002-03, as compared with preliminary 2000-01 collections, are shown in Figure REV-18.

SPECIAL FUND REVENUE

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues consist of three categories of income:

Figure REV-17

Cigarette Consumption (Packages per Capita)



- ❖ Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- ❖ Charges for special services provided for specific functions, including such items as business and professional license fees.

Figure REV-18

Tobacco Tax Revenue* (Dollars in Millions)

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
General Fund	\$126.7	\$124.0	\$122.0
Cigarette and Tobacco Products Surtax Fund	348.8	346.0	341.0
Breast Cancer Fund	25.3	24.8	24.4
California Children and Families First Trust Fund	650.1	641.0	632.0
Total	\$1,150.9	\$1,135.8	\$1,119.4

*In addition to the tax revenue displayed above, \$386.4 million was received in 2000-01, with estimated receipts of \$475 million in 2001-02, and \$474.4 million in 2002-03 from the tobacco litigation Master Settlement Agreement.



- ❖ Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise over 42 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2002-03, \$7.2 billion in revenues will be derived from the ownership or operation of motor vehicles, a 17.3 percent decrease from the 2001-02 level. As discussed under motor vehicle fees, this decrease is due to a reduction in vehicle license fees paid by taxpayers. Over 41 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various State programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2002-03, local governments are expected to receive \$2.3 billion from this revenue source, up 4.6 percent from 2001-02. In addition to this revenue, approximately 24 percent of all vehicle license fees (including amounts backfilled by the General Fund) are transferred to the Local Revenue Fund.

Tobacco-related taxes are collected primarily to support early childhood development programs as specified in Proposition 10. These proceeds are

deposited in the California Children and Families First Trust Fund and are estimated at \$641 million in 2001-02 and \$632 million in 2002-03. Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at \$346 million in 2001-02 and \$341 million in 2002-03. An additional \$24.8 million for breast cancer research will be generated in 2001-02 by the 2 cents per pack cigarette tax enacted in 1993, while \$24.4 million will be generated in 2002-03 for this purpose. The original 10 cents per pack tax on cigarettes is allocated to the General Fund.

Motor Vehicle Fees: \$3.92 billion—

Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation. This amount includes the additional revenues due to proposed increases in certain fees, fines, and penalties, which are discussed under the Department of Motor Vehicles in the Business, Transportation, and Housing Section.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on the public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.



The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2 percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

As part of the State-local program "realignment," Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State pays or "offsets" a portion of the amount due, and taxpayers pay the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of the VLF owed became operative. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and

Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning on July 1, 2001, the VLF was permanently reduced by 67.5 percent.

The amount by which the VLF is reduced is made up or "backfilled" by the General Fund to prevent any loss of revenues to local governments. This backfill is expected to provide tax relief of \$3.573 billion in 2001-02 and \$3.726 billion in 2002-03. Because of the increased VLF offset levels, revenue received from these fees has decreased by 17.3 percent from 2001-02. However, as the amount paid by taxpayers decreases due to increased tax relief, the amount backfilled by the General Fund increases, so local governments are held harmless.

As part of the implementation of the vehicle license fee rebate program, a Special Reserve Fund for Vehicle License Fee Tax Relief was created. As noted above, this rebate program was replaced with a General Fund offset beginning in 2001-02. Only a modest portion of the \$45.2 million balance in this Special Fund is estimated to be needed for rebates attributable to late filers in future years. As a result, the Budget contains a legislative proposal to eliminate this Special Reserve Fund and transfer its balance to the General Fund. This shift of resources will have no impact on the vehicle license fee tax relief program or local governments,

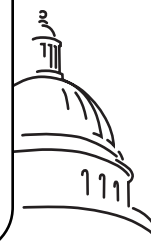
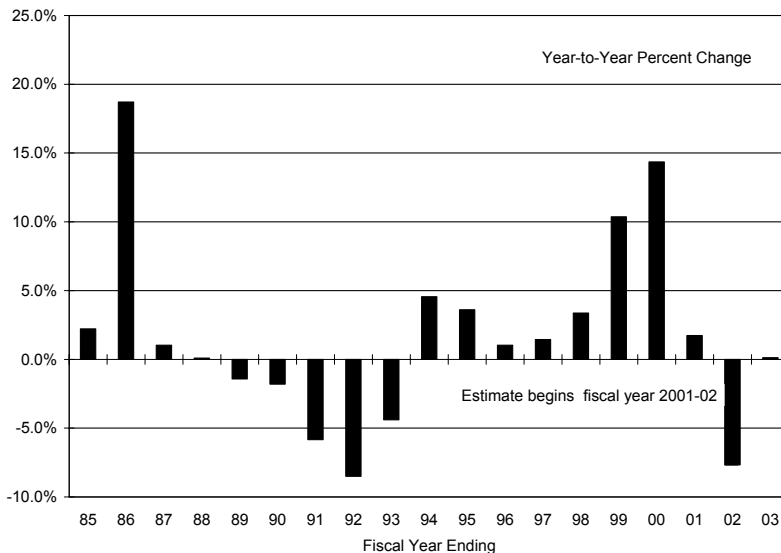


Figure REV-19

New Vehicle Registrations



and rebates that may result from late filers in the future will be funded from the General Fund instead.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF, which in this instance is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be

deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. Chapter 861 also provided that the vehicle license fee will no longer be charged on commercial trailers, and the loss in revenue to local governments from that exclusion will be backfilled by the General Fund.

Allowing for scrappage and for vehicles entering and leaving California, the total number of fee-paid registrations, (autos, trucks, trailers, and motorcycles) including multi-state vehicles, is estimated at 27,434,000 for 2001-02 and 27,910,000 for 2002-03, a 1.7 percent increase. As can be seen in Figure REV-19, the 14.4 percent growth in new vehicle registrations in 1999-00 was at a 14-year high. This dramatic growth was due to extremely strong vehicle sales at that time. Vehicle sales are expected to decline from these record highs in 2001-02 and 2002-03. Although new vehicle sales surged in October 2001, this is probably a temporary increase caused by incentives that accelerated sales that would have taken place throughout the fiscal year. Because of the economic slowdown, the forecast



for new vehicle registrations assumes a 7.7 percent decline in 2001-02, followed by 0.1 percent growth in 2002-03.

Motor vehicle fees revenue is summarized in Figure REV-20.

Motor Vehicle Fuel Taxes:

\$3.242 billion—The motor vehicle fuel tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing State highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel tax (gas tax) is collected from distributors at the terminal rack level (i.e., the point at which fuel is loaded into ground transportation). Motor vehicle fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

The Motor Vehicle Fuel Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Figure REV-20

Motor Vehicle Fees Revenue (Dollars in Thousands)

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
Vehicle License Fees ^{1/}	\$2,490,570	\$1,302,373	\$1,358,185
Realignment ^{1/}	798,598	432,067	449,983
Registration, Weight, and Other Fees	1,943,249	1,987,107	2,107,112
Total	\$5,232,417	\$3,721,547	\$3,915,280

^{1/} Reflects 25 percent vehicle license fee offset in 1999, 35 percent in 2000, and 67.5 percent beginning in 2001.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is collected from distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

Chapter 1053, Statutes of 2000, required that the State excise tax on gasoline be collected at the terminal rack level, rather than at the level at which the fuel changes ownership. Standardizing the point of collection conforms to federal law and is expected to increase compliance.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing



15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cents per gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers. This excise tax is imposed in lieu of the other fuel taxes described above.

Gasoline consumption has grown slowly over time, as conservation efforts have offset economic growth. Gasoline consumption rose 2.1 percent during 2000-01, but is estimated to increase by 1.2 percent in 2001-02 and 1.7 percent in 2002-03. Although these growth rates are slower than the past three years, they are near the long-term growth rate of approximately 1.6 percent.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic

conditions. Diesel fuel consumption increased by only 0.8 percent in 2000-01 and is expected to rise by 0.4 percent in 2001-02, before increasing by 3.3 percent in 2002-03. These slower growth rates in 2000-01 and 2001-02 are a result of both the increase in fuel prices and a moderation of economic activity.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1 cent per gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled \$1.53 billion during 2000-01 and are expected to be \$1.54 billion and \$1.58 billion during 2001-02 and 2002-03, respectively.

Motor vehicle fuel revenues are shown in Figure REV-21.

Figure REV-21

Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2000-01 Preliminary	2001-02 Forecast	2002-03 Forecast
Gasoline ^{1/}	\$2,677,001	\$2,713,982	\$2,759,674
Diesel	462,425	467,125	481,986
Total	\$3,139,426	\$3,181,107	\$3,241,660

^{1/} Does not include jet fuel.



Figure REV-22

Summary of State Tax Collections
(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income ^{1/2/}	State Tax Collections (Dollars in Millions)		Taxes per Capita ^{1/}		Taxes per \$100 of Personal Income ^{3/}	
		General		General		General	
		Fund	Total	Fund	Total	Fund	Total
1967-68	\$3,878	\$3,558	\$4,676	\$185.55	\$243.86	\$4.78	\$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,532	4,126	5,409	208.96	273.94	4.61	6.04
1970-71	4,812	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,451	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,947	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,552	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,091	9,050	10,680	420.19	495.87	5.93	6.99
1976-77	7,814	10,781	12,525	491.48	570.98	6.29	7.31
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,620	14,188	16,201	621.30	709.45	6.46	7.38
1979-80	10,845	16,904	19,057	726.83	819.41	6.70	7.56
1980-81	12,038	17,808	20,000	748.80	840.97	6.22	6.99
1981-82	13,209	19,053	21,501	784.78	885.62	5.94	6.70
1982-83	13,782	19,567	22,359	788.83	901.39	5.72	6.54
1983-84	14,505	22,300	25,674	880.14	1,013.30	6.07	6.99
1984-85	15,944	25,515	29,039	988.34	1,124.85	6.20	7.05
1985-86	16,934	26,974	30,898	1,021.63	1,170.25	6.03	6.91
1986-87	17,661	31,331	35,368	1,158.18	1,307.41	6.56	7.40
1987-88	18,665	31,228	35,611	1,126.67	1,284.81	6.04	6.88
1988-89	19,763	35,647	40,613	1,255.49	1,430.39	6.35	7.24
1989-90	20,819	37,248	43,052	1,278.16	1,477.32	6.14	7.10
1990-91	21,978	36,828	43,556	1,234.66	1,460.22	5.62	6.64
1991-92	21,992	40,072	48,856	1,315.63	1,604.02	5.98	7.29
1992-93	22,641	39,197	48,230	1,264.95	1,556.46	5.59	6.87
1993-94	22,805	38,351	48,941	1,224.73	1,562.93	5.37	6.85
1994-95	23,320	41,099	50,648	1,303.77	1,606.71	5.59	6.89
1995-96	24,328	44,825	54,805	1,413.54	1,728.24	5.81	7.10
1996-97	25,418	47,955	58,400	1,500.37	1,827.15	5.90	7.19
1997-98	26,549	53,859	64,826	1,659.66	1,997.63	6.25	7.52
1998-99	28,350	58,199	69,724	1,771.02	2,121.72	6.25	7.48
1999-00	29,844	70,027	81,734	2,095.53	2,445.86	7.02	8.20
2000-01 ^{p/}	32,116	75,668	88,128	2,219.78	2,585.30	6.91	8.05
2001-02 ^{e/}	31,944	67,721	78,114	1,948.36	2,247.37	6.10	7.04
2002-03 ^{e/}	32,198	74,019	84,747	2,091.80	2,394.98	6.50	7.44

^{1/} Per capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.

^{2/} Personal income data are on a calendar year basis (e.g., 2000 for 2000-01).

^{3/} Taxes per \$100 personal income computed using calendar year personal income (e.g. 2000 income related to 2000-01 tax collections).

^{p/} Preliminary.

^{e/} Estimated.



Figure REV-23

Outline of State Tax System as of January 1, 2002

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	\$0.20	Equalization ¹	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine	Gallon	\$0.20	Equalization	General
Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% ²	Franchise ³	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	6.65% ²	Franchise	General
Tobacco:				
Cigarette	Package	\$0.87 ⁴	Equalization	Cigarette Tax, Cigarette and Tobacco Products Surtax, Breast Cancer Act, and Calif. Children and Families First Initiative
Other Tobacco Products	Wholesale price	52.65% ⁵	Equalization	Cigarette and Tobacco Products Surtax
Energy Resources Surcharge				
	Kilowatt hours	\$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License				
	Amount wagered	0.4% - 2.0%	Horse Racing Board	Fair & Expo ⁶ , Satellite Wagering ⁷ , Wildlife Restoration, and General
Estate				
	Taxable Federal estate	0.8-16.0%	Controller ⁸	General
Insurance				
	Gross Premiums	2.35% ⁹	Insurance Dept.	General
Liquor license fees				
	Type of license	Various	Alcoholic Beverage Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	2.0% ¹⁰	Motor Vehicle Dept	Motor Vehicle License Fee and Local Revenue ¹¹
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel ¹²
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$30.00	Motor Vehicle Dept	Motor Vehicle ¹³
Weight Fees	Gross Vehicle Weight	Various	Motor Vehicle Dept	State Highway ¹⁴
Personal Income				
	Taxable income	1.0-9.3%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Income	7.0%	Franchise	General
Private Railroad Car				
	Valuation	¹⁵	Equalization	General
Retail Sales and Use				
	Receipts from sales or lease of taxable items	5.50% ¹⁶	Equalization	General and Local Revenue

Source: State of California, Department of Finance

¹ State Board of Equalization.

² Minimum tax \$800 per year for existing corporations. New corporations are exempted from the minimum franchise tax for the first two years of operations.

³ Franchise Tax Board.

⁴ This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tobacco Products Surtax, 2 cents per pack for the Breast Cancer Act, and 50 cents per pack for the California Children and Families First Trust Fund.

⁵ A tax equivalent to the tax on cigarettes; rate reflects the 50 cents per pack established by the California Children and Families First Initiative.

⁶ For support of county fairs and other activities.

⁷ For construction of Satellite Wagering Facilities and health and safety repairs at fair sites.

⁸ State Controller's Office

⁹ Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.

¹⁰ Beginning January 1, 1999, vehicle owners pay only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) is paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapter 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent credit through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which will be returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF will be permanently reduced by 67.5 percent.

¹¹ For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

¹² For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.

¹³ For support of State Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.

¹⁴ For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaces the current weight fee schedule for trucks, which is based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards.

¹⁵ Average property tax rate in the State during preceding year.

¹⁶ Includes a 5.00 percent rate for the State General Fund and Public Transportation Account and a 0.50 percent rate to the Local Revenue Fund for realignment.



Figure REV-24

Comparative Yield of State Taxes, 1970-71 through 2002-03
Includes both General and Special Funds
(Dollars in Thousands)

Year Ending June 30	Sales and Use	Personal Income	Corporation (a)	Tobacco (b)	Estate Inheritance and Gift (c)	Insurance (d)	Alcoholic Beverage (e)	Horse Racing (f)	Motor Vehicle Fuel (g)	Vehicle Fees (h)
1971	\$1,808,052	\$1,264,383	\$532,091	\$239,721	\$185,899	\$158,423	\$106,556	\$64,601	\$674,635	\$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	69,380	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	72,693	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	78,289	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	86,637	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	96,117	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	102,702	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	111,591	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	112,856	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	127,002	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	129,779	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	119,626	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	120,159	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	141,001	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	133,814	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	131,592	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	131,733	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	132,208	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	143,379	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	147,920	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	148,279	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	130,042	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	114,037	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	118,215	2,547,633	4,518,795
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	108,974	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	106,057	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	90,627	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	21,013,674	30,894,865	5,724,237	976,513	890,489	1,253,972	273,112	61,185	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	44,130	3,069,694	5,263,245
2001	24,298,292	44,614,297	6,899,302	1,150,856	934,708	1,496,556	288,451	44,541	3,142,142	5,258,754
2002 *	23,600,206	38,455,000	5,261,000	1,135,800	850,900	1,560,000	285,000	45,266	3,183,607	3,736,879
2003 *	25,380,515	42,605,000	5,869,000	1,119,400	614,500	1,656,000	282,000	45,315	3,244,260	3,930,895

(a) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.

(b) Proposition 99 (November 1988) increased the cigarette tax to \$0.35 per pack and added an equivalent tax to other tobacco products. The Breast Cancer Act added \$0.02 per pack effective 1/1/94.

(c) Proposition 10 (November 1998) increased the cigarette tax to \$0.87 per pack and added the equivalent of \$1.00 tax to other tobacco products.

(d) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduces the State pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005.

(e) The conclusion of litigation resulted in additional revenue of \$51 million in 1987-88, \$178 million in 1988-89, \$7 million in 1990-91, and \$5 million in 1991-92. It also resulted in refunds of \$46 million in 1993-94, \$127 million in 1994-95, \$39 million in 1995-96, \$15 million in 1996-97, and \$30 million in 1997-98.

(f) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.

(g) Beginning in 1988-89, includes revenues from satellite wagering that were not included in prior years.

(h) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.

(i) Registration and weight fees, motor vehicle license fees, and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction from January 1, 2000, through June 30, 2001, and a 67.5 percent reduction thereafter.

* Estimated

